
RATING REPORT
Takaful Islami Insurance Limited.

Ratings

Long Term : **BB1**
Short Term : **ST-4**

Date of Rating : **December 18, 2007**

Validity : **One Year**

Analyst:**Ehsanul Kabir**

Senior Financial Analyst

RATIONALE

Credit Rating Agency of Bangladesh (CRAB) Limited has assigned **BB1** (Pronounced Double B One) rating in the long term and **ST-4** rating in the short term to the Takaful Islami Insurance Limited (TIIL).

General insurance companies rated in the long term BB1 belong to 'Average Safety' cohort. Companies are adjudged to have average financials and moderate claim paying ability. Insurance companies rated in short term 'ST-4' category are considered to have adequate capacity for timely repayment of obligations.

CRAB performed the present rating assignment based on the audited financial statements of December 31, 2006 and other relevant information. In 2006, TIIL earned BDT 134.38 million gross premium with a growth of 28.14%. In 2003 and 2004 gross premium collection of TIIL were lower than its peer group average but in 2005 TIIL achieved the peer group average in gross premium collection. Inconsistency was observed in underwriting profit growth. In 2006, underwriting profit of TIIL decreased by BDT 5.29 million than that of 2005. The company had a market share of 1.31% in 2005 in terms of gross premium. In 2006, TIIL had better performance in terms of loss ratio but the higher expense ratio offset the achievement

of lower loss ratio when combined ratio was considered. High business procurement cost was the driver behind the higher expense ratio for TIL. Claim settlement procedure of TIL requires more attention. In 2006 TIL could not settle a fire claim of BDT 54.30 million on time which was mainly due to the delay of reinsurance reimbursement by the re-insurer. But the client had to suffer for the delay in payment. This incident affected TIL's solvency position as well as the claim payment ability. During the last four years TIL incurred underwriting loss in 2003 & 2004. But TIL achieved steady investment income over the years. The investment portfolio comprises shares & fixed deposits. At the end of 2006, TIL had the investment in stock market worth BDT 15.38 million and BDT 80.05 million in fixed deposits. Investment portfolio of TIL was exposed to concentration risk as 85% of its stock investment belonged to a particular sector. The principal concerns of the company are underwriting quality, claim settlement procedure and solvency. Special attention is also required in corporate governance and management information system.

Exhibit: Financial Highlights of TIL

Particulars	Amount in BDT million		
	2004	2005	2006
Net Premium	41.21	62.29	76.18
Net Claim Paid	6.70	10.92	-42.90
Underwriting Profit	-2.81	10.92	5.63
Net Profit	1.03	9.12	11.24
Total Asset	118.46	138.53	198.48
Return on Net Premium	2.49%	14.64%	14.75%
Return on Equity	1.97%	14.94%	15.85%
Investment Yield	8.58%	10.98%	9.45%
Liquid Asset / Current Liabilities	1.91X	2.19X	1.73X
Paid-up Capital	60.00	60.00	60.00

2. BACKGROUND

After independence of Bangladesh, insurance industry was nationalized. Subsequently through the enactment of Insurance Corporation Act VI, 1973, two corporations namely Sadharan Bima Corporation (SBC) for general insurance and, Jiban Bima Corporation for life insurance were established in Bangladesh. SBC was acting as the sole insurer of general insurance till 1984. Between 1985 and 1988 first generation of private general insurance companies were emerged as Bangladesh Government allowed the private sector to conduct business in all areas of insurance for the first time in 1984. A total of 16 private general insurance companies were registered in that phase. In 1996 another 8 private general insurance companies were registered. The third generation of private general insurance companies, which included 18 companies, were came into operation between 1999 and 2001. The general insurance market in Bangladesh now consists of 43 private sector insurance companies and 1 state owned insurance company. Insurance Corporation (Amendment) Act 1990 provides that fifty percent of all insurance business relating to any public property or to any risk or liability appertaining to any public property shall be placed with the SBC and the remaining fifty percent of such business may be placed with this corporation or with any other insurers in Bangladesh. But for practical reason and in agreement with the Insurance Association of Bangladesh SBC underwrites all the public sector business and 50% of that business is distributed among the existing 43 private general insurance companies equally under National Co-insurance Scheme.

2.1 General Insurance Business in Bangladesh

General insurance business in Bangladesh has been growing steadily over the years. Total gross premium stood at BDT 8015.53 million in 2005 whereas in 2003 the figure was BDT 5878.18 million. Growth rate in gross premium also depicts an increasing trend. In 2005, the growth rate in gross premium was 18.18% which was about 6% higher than the growth rate in 2003. Growth of general insurance industry largely depends on growth in exports, imports, prospects of industrialization and investments. Marine and Fire insurance dominate the general insurance business in

Bangladesh. In 2005, Marine & Fire insurance premium were 39% & 36% respectively of total gross premium. On the other hand, in terms of gross claims miscellaneous Insurance & fire insurance dominated with 49% & 30% of total gross claims in 2005.

Figure 1

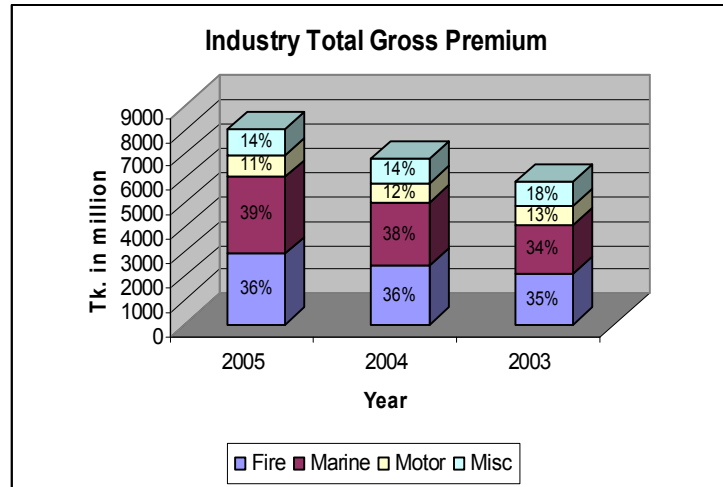
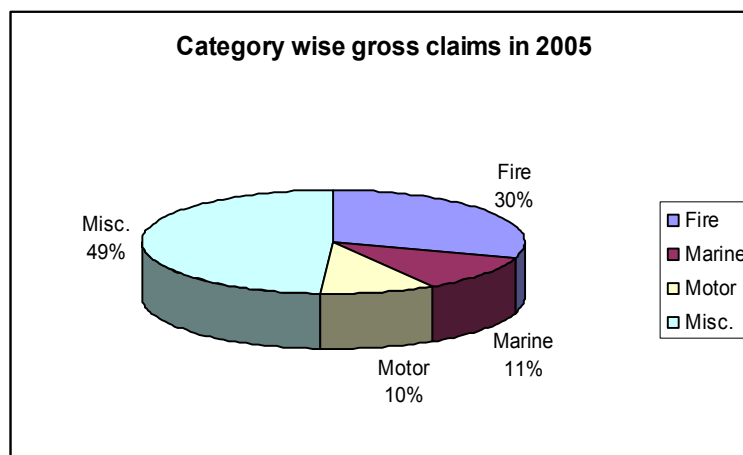


Exhibit 1 Segments of Industry Gross Premium

BDT In million

Premium	2005		2004		2003	
	Amount	%	Amount	%	Amount	%
<i>Fire</i>	2887	36.02%	2425	35.76%	2041	34.74%
<i>Marine</i>	3161	39.44%	2571	37.90%	2011	34.20%
<i>Motor</i>	882	11.01%	814	12.01%	793	13.49%
<i>Misc.</i>	1085	13.53%	972	14.33%	1033	17.57%
Total Gross Premium	8015	100.00%	6782	100.00%	5878	100.00%
Growth	18.18%		15.38%		10.38%	

Figure 2: Composition of Industry Gross Claim in 2005



Sadharon Bima Corporation hold about 11% of market share and the private sector holds the rest market share in 2005. Private sector companies experienced a mixed growth in terms of net claims, underwriting profit and investment. Detail figures are shown in Exhibit 2

Exhibit 2: Financial Highlights of General Insurance Industry

Particulars	BDT in million					
	2005		2004		2003	
	Amount	Growth	Amount	Growth	Amount	Growth
<i>Net Claims</i>	807.43	20.43%	670.43	40.74%	476.35	3.01%
<i>Underwriting Profit</i>	637.9	38.76%	459.7	16.46%	394.72	32.57%
<i>Investment</i>	6624.23	-3.63%	6873.92	34.78%	5100.14	13.63%

2.2 Regulatory Environment

All the insurance companies in Bangladesh are regulated according to the Insurance Act, 1938 and Insurance Rules 1958. The government recently took initiative for enacting new laws to overcome the disorganized state that is prevailing in the sector due to lack of a sound regulatory framework. Already three draft acts 1) Insurance Regulatory Authority Act, 2007, 2) Insurance Act 2007 and 3) Takaful Act 2007 are under consideration of the Government. The proposed Insurance Act 2007 would replace the existing Insurance Act 1938 and the new rules and regulations would be made under the Act in due course.

3. OPERATIONAL REVIEW

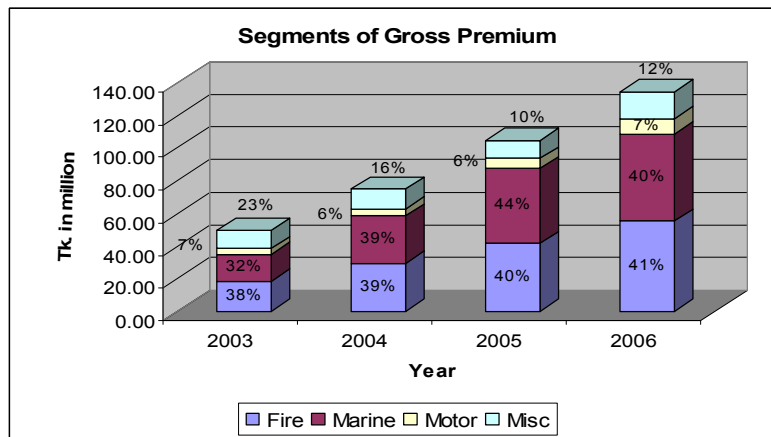
3.1 Company Profile

Takaful Islami Insurance Limited (TIIL) was incorporated in Bangladesh as a public company Limited. by shares on December 21, 2001 with authorized capital BDT 200 million and paid up capital BDT60.million. It is noted that the name of Sears Insurance Co. Ltd has been changed to Takaful Islami Insurance Ltd. The principal activities of the company are general insurance business which includes Fire, Marine Cargo, Marine Hull, Motor and Miscellaneous insurance. Takaful Islami Insurance Limited is operating like other conventional general insurance companies.

3.2 Segments of Business & Growth

Business of THIL comprises four principal segments. These are Fire, Marine, Motor and Miscellaneous Insurance. In the last four years fire insurance and marine insurance dominated the gross premium collection. On the other hand, motor insurance hold the lowest portion of gross premium.

Figure 3: Category wise Gross Premium of THIL



In terms of gross claims, fire insurance occupied major portion of gross claims from all the years except 2004 (Exhibit 3). In 2004 claim payment of motor insurance was the highest with 46%.

Figure 4: Category wise Gross Claim of THIL

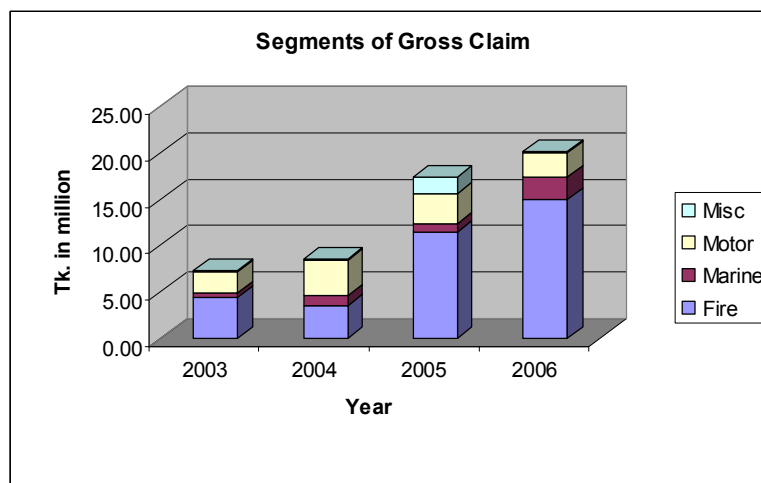


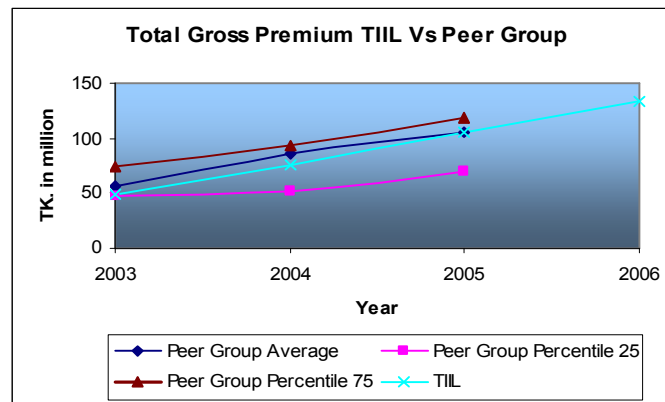
Exhibit 3: Segment wise Gross Claim of TIIL (BDT In million)

Class of Business	2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Fire	3.48	41%	11.42	66%	14.90	74%
Marine	1.03	12%	1.00	6%	2.45	12%
Motor	3.94	46%	3.17	18%	2.57	13%
Misc.	0.08	1%	1.79	10%	0.18	1%
Total	8.54		17.37		20.10	

3.3 Growth Analysis

Business of general insurance largely depends on premium collection of a company. In 2003 & 2004 gross premium collection of TIIL was lower than peer group average but in 2005 TIIL achieved peer group average in gross premium collection. Overall gross premium collection of TIIL showed an increasing trend in the last four years

Figure 5



TIIL achieved higher growth in net premium than its peer group both in 2004 & 2005. In 2006 this figure was 22%. But a decreasing trend is observed in net premium growth. Net claim of TIIL experienced a mixed growth compared to its peer group over the years. In 2004 TIIL attained higher growth in net claims compared to its peer group but the opposite scenario was found in 2005. An unusual negative growth (-527%) was observed in 2006 for net claim. It is to be noted that the net claims of TIIL had the negative figure which was mainly due to non-cash payment of reinsurance claim from Sadharon Bima Corporation (SBC). Inconsistency in the growth of underwriting profit of TIIL was also noticed. In 2006 underwriting profit growth was

negative. There was an increasing growth in TIIL’s investment & fixed deposit figure from 2004 to 2006. But still it was lower than Peer group average in 2004 & 2005. TIIL attained 43% growth for total asset and the amount stood at BDT 198.48 million.

Exhibit 4: Financial Highlights of TIIL & Peer Group
(BDT in million)

Particulars	TIIL					Peer Group Average		
	2004	2005		2006		2004	2005	
	<i>Growth</i>	Amount	<i>Growth</i>	Amount	<i>Growth</i>	<i>Growth</i>	Amount	<i>Growth</i>
Net premium	134%	62.29	51%	76.18	22%	54%	62.29	35%
Net Claim	211%	10.04	50%	-42.90	-527%	181%	10.05	84%
Underwriting Profit	71%	10.92	489%	5.63	-48%	184%	10.92	71%
Investment & Fixed Deposit	6%	79.85	10%	95.44	20%	9%	80.00	17%
Total Asset	21%	138.53	17%	198.48	43%	18%	138.53	19%

3.4 Market Share

A total of 44 general insurance companies are actively participating in the market. This results a highly competitive general insurance market in Bangladesh. The market share of TIIL & its Peer group average for some of the principal indicators are illustrated in Exhibit 5. For Gross premium & Gross claim the market shares of TIIL & its Peer group average were almost similar. But the market shares of TIIL were below its peer group average for Underwriting profit, Net Profit, Investment & Fixed Deposit as well as Total asset.

Exhibit 5: Market Share of TIIL as on 2005

Particulars	TIIL	Peer Group Average	Total Industry	Market Share	
				TIIL	Peer Group Average
Gross Premium	104.86	104.63	7981.03	1.31%	1.31%
Investment & Fixed Deposit	79.85	103.34	2634.87	3.03%	3.92%
Total Asset	138.53	194.26	20251.62	0.68%	0.96%

4. CORPORATE GOVERNANCE

4.1 Board of Directors

TIIL was incorporated in Bangladesh as a public company limited by shares in 2001. The board of directors comprises 21 directors. Detail ownership information is provided in Exhibit 6. Mr. Md. Fazle Azim is the chairman of board of directors and Mr. Kh. Mesbah Uddin Ahmed is acting as vice chairman. Most of the directors possess entrepreneurship experience.

Exhibit 6: Share holdings of directors

No.	Name of Directors	% of holdings
1	Mr. Md. Fazle Azim	1.67%
2	Mr. Kh. Mesbah Uddin Ahmed	7.50%
3	Mr. Emdadul Haque Chowdhury	5%
4	Mr. Anwar Hossain Chowdhury	5%
5	Mr. Anwer Hossain Khan	3.33%
6	Mr. Md. Towhidur Rahman	5%
7	Mr. Shamsul Arefin Khaled	5%
8	Mrs. Amena Shaheen	2.50%
9	Mr. Humayun Kabir Patwary	6.66%
10	Mr. Abul Hashem	7.50%
11	Al-Haj Tofazzal Hossain	3.33%
12	Mr. A.K.M Rofique Ullah	0.83%
13	Mr. Waliul Haque	1.67%
14	Mr. Abu Letfe Fazle Rahim Khan	1.67%
15	Mrs. Nasreen Haq	7.50%
16	Mr. Hasnain Harun	15%
17	Mr. Md. Mofizuddin	5.83%
18	Mrs. Shamima Haider Chowdhury	5%
19	Begum Husne Jahan	0.83%
20	Mrs. Ferdous Rahman	7.50%
21	Mrs. Monowara Sultana	0.83%

4.2 Committees of the Board

The board of TIIL formulated 3 committees to run the organization smoothly. The committees are Executive Committee, Claims & Re-insurance Committee and Investment, Finance & Accounts Committee. Executive committee is responsible for approval of all expenditure, purchase, appointment, promotion and business plan. During 2006 executive committee had 11 meetings. On the other hand, Claim & Re-

Insurance Committee and Investment, Finance & Accounts Committee had 05 and 02 meetings respectively. The board of TIIL held 03 meetings in 2006.

5. MANAGEMENT REVIEW

5.1 Senior Management

Mr. Abul Kashem Chowdhury, with 41 years of insurance service experience is serving as the managing director of TIIL. Mr. Chowdhury is a commerce graduate. The operation of TIIL is managed through 5 departments. These are Admin & Establishment, Finance & Accounting, Non-Marine Underwriting, Claims & Reinsurance and Marine Underwriting. There is no separate human resources division or IT division. TIIL has not yet introduced any service rule. Exhibit 7 shows some key ratios regarding management efficiency.

Exhibit 7: Some key indicators of management efficiency.

	2003		2004		2005		2006
	TIIL	Peer Avg	TIIL	Peer Avg	TIIL	Peer Avg	TIIL
Gross Premium/No. of Employee	0.37	0.40	0.55	0.48	0.77	0.61	0.99
Total Asset / No. of Employee	0.72	0.77	0.87	0.91	1.02	1.87	1.46

In 2006 gross premium to no. of employee for TIIL was BDT 0.99 million. Except in 2003 TIIL had higher gross premium ratio than its peer group average. But the total asset to no. of employee of TIIL was less than its peer group average from 2003 to 2005. On the other hand, management expense to no. of employee ratio depicts that TIIL had higher expense than its peer group average.

6. FINANCIAL REVIEW

6.1 Underwriting Quality

TIIL underwrites all the major general insurance products including fire, marine, motor and other miscellaneous insurances. Underwriting quality is vital for the

insurance business as a significant portion of profit comes from these activities. Loss ratio is a key indicator of underwriting performance. The loss ratio of TIIL shows fluctuations over the last four years. But on an average loss ratio is about 14 %. On the other hand expense ratio reveals the underwriting cost for a company. In 2005 TIIL had lower loss ratio than private sector average but expense ratio was much higher than the private sector average (Exhibit 8).

Exhibit 8: Expense & Loss Ratio

Particulars	TIIL				Pvt. Sector
	2003	2004	2005	2006	2005
Loss Ratio	14.81%	11.37%	16.57%	14.82%	24.23%
Expense Ratio	53.25%	42.73%	50.02%	54.00%	32.88%
Combined Ratio	68.06%	54.10%	66.59%	68.82%	57.11%

* *Loss Ratio = Gross Claim / Gross Premium*

* *Expense Ratio = Mgt Exp / Gross Premium*

6.2 Management Expense

Management expense includes staff salary, commission and other administrative cost. Exhibit 9 illustrates the actual expense, allowable expense & the excess expense of TIIL. In the last four years TIIL had excess over expense than its allowable expense. But there is a decreasing trend in the percentage of excess expense.

Figure 7

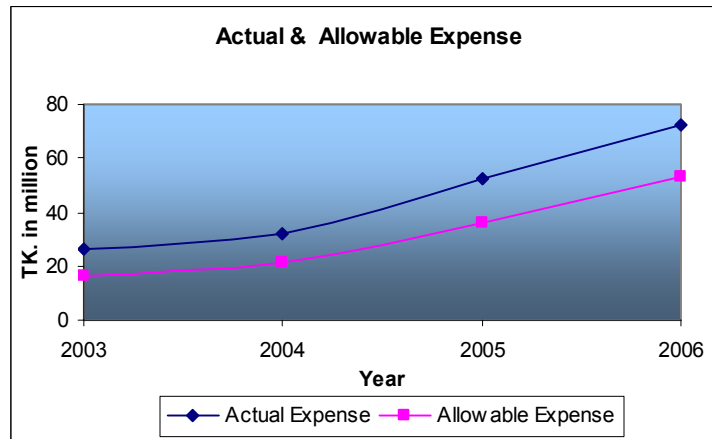
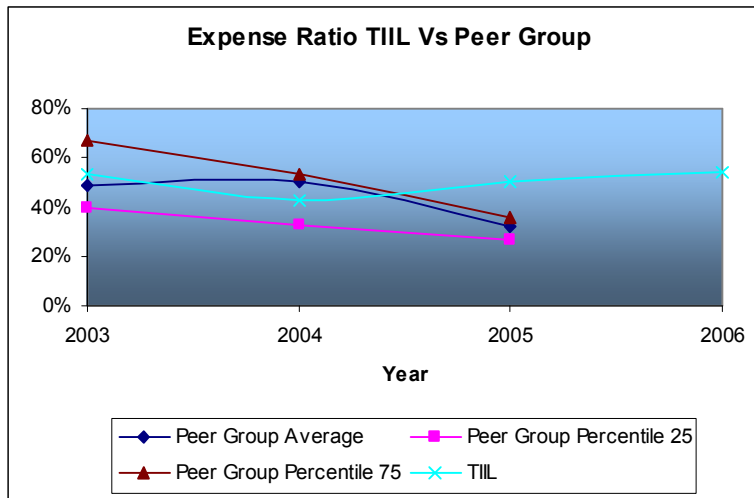


Exhibit 9: Expense of TIIL

Particulars	2003	2004	2005	2006
Actual Expense	26.44	32.10	52.45	72.56
Allowable Expense	16.28	21.16	36.15	52.87
Excess Expense	10.16	10.95	16.30	19.69
% of Excess Expense over Allowable expense	38.43%	34.10%	31.08%	27.13%

Expense ratio depicts the managements' efficiency to run the business. The average expense ratio for TIIL is about 50% in the last four years which is much higher than the industry average. Figure 7 reveals that except in 2004, expense ratio of TIIL was higher than its peer group average.

Figure 8



6.3 Claim Settlement

In 2006 TIIL had only one intimated miscellaneous claim which was settled in the same year. For other class of insurance the average claim settlement ratio within a year was about 64%. In the last four years the claim settlement ratio of motor & fire insurance increased gradually.

Exhibit 10: Claim Settlement Ratio of TIIL

Class	2003		2004		2005		2006	
	No. of Claim Settled	Ratio*	No. of Claim Settled	Ratio*	No. of Claim Settled	Ratio*	No. of Claim Settled	Ratio*
Motor	46	50%	45	56%	68	64%	43	63%
Fire	14	54%	16	29%	18	47%	27	61%
Marine	8	89%	8	73%	6	55%	11	69%
Misc.	2	100%	1	25%	3	100%	1	100%

* Ratio = No. claim settled / Total no. of claim

At the end of 2006, TIIL had 9 pending claims worth BDT 28.38 million. Among the pending claims of 2006, 41.19% belonged to fire insurance whereas 58.81% went to marine insurance. The average pending age for fire insurance was 10 months and for Marine insurance this figure was 03 months.

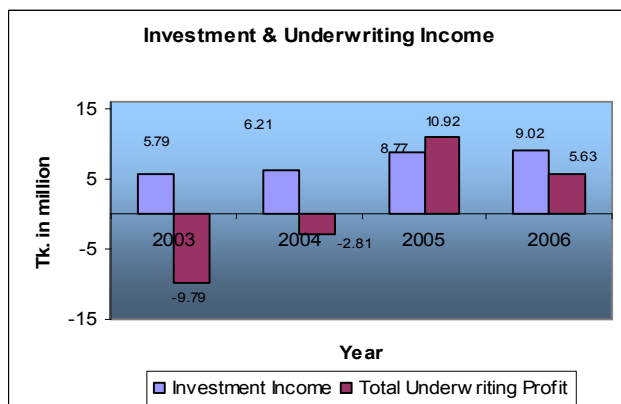
Exhibit 11: Detail of pending Claim in 2006

Class	No. Claim Pending	Claim Amount (BDT million)	% of Total	Average Pending Age
Fire	6	11.69	41.19%	10 months
Marine	3	16.69	58.81%	03 months
Total	9	28.38	100%	

6.4 Profitability

The principal sources of income for TIIL are underwriting profit & investment income. In 2003 & 2004 TIIL had underwriting loss of BDT 9.70 & 2.81 million respectively. But in 2005 & 2006 TIIL achieved significant underwriting profit (BDT 10.92 & 5.63 million respectively). On the other hand, investment income of TIIL had a positive trend in the last four years and in 2003 investment income could offset the underwriting loss.

Figure 9



In 2003 net loss of TIIL was BDT 6.21 million and thereafter TIIL achieved net profit with an increasing trend. Though in 2003 & 2004 net profit was in the 25 percentile of its peer group, TIIL could manage to reach its peer group average in 2005. In 2006 its net profit was BDT 11.24 million.

Figure 10

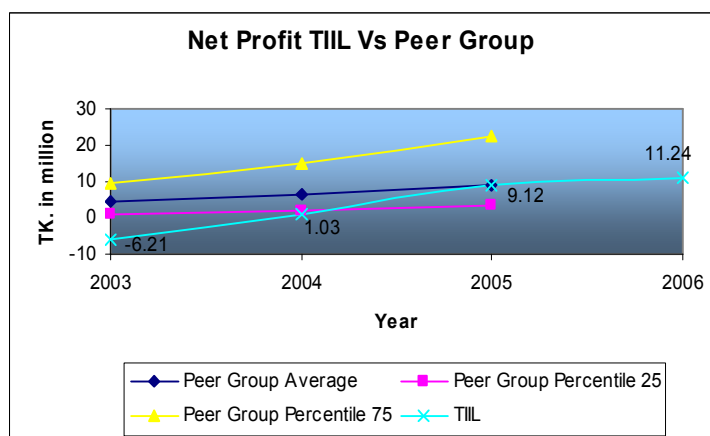


Exhibit 12: Profitability Ratios

Particular	2003	2004	2005	2006
Return on Equity (ROE)	-12.20%	1.97%	14.94%	15.85%
Return on Asset (ROA)	-6.32%	0.87%	6.58%	5.66%
Earning per Share	-10.35	1.71	15.20	18.73

Return on equity of TIIL was –12.20% in 2003 but it shot up to 15.85% in 2006 with an increasing trend. In terms of ROA TIIL was in 25 percentile of its peer group in both 2003 & 2004 but could manage to exceed the peer group average in 2005.

Figure 11

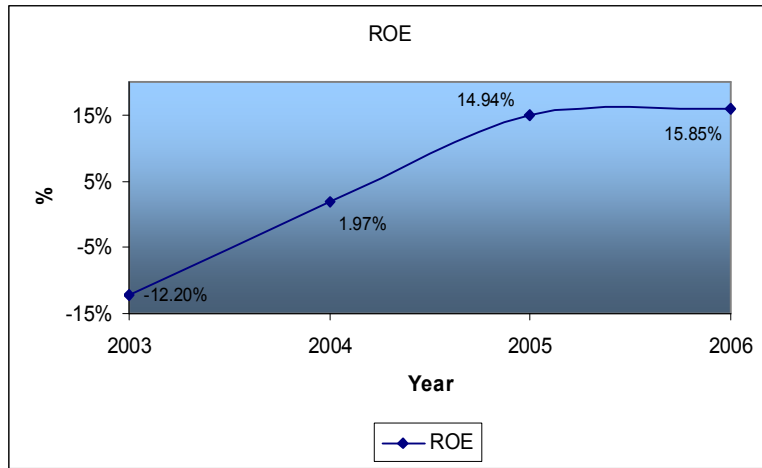
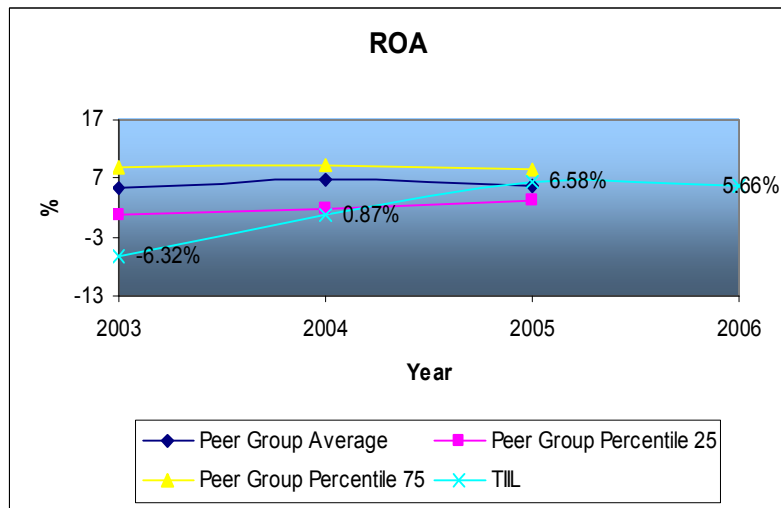


Figure12



6.5 Investment

Except in 2004 TIIL had investment income above its peer group average. Investment income of TIIL was BDT 9.02 million in 2006 whereas this figure was BDT 8.77 million in 2005. Although the investment yield (investment income/Investment asset) of TIIL declined by 13.93% in 2006, the total investment income grew 2.85%. The increase reflects an increase in portfolio size. The growth in total investment asset was 20% in 2006.

Figure 13

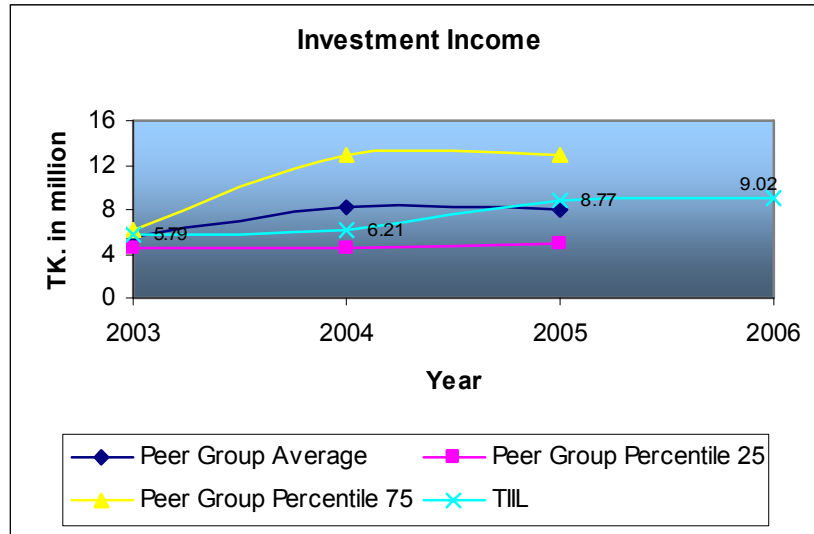
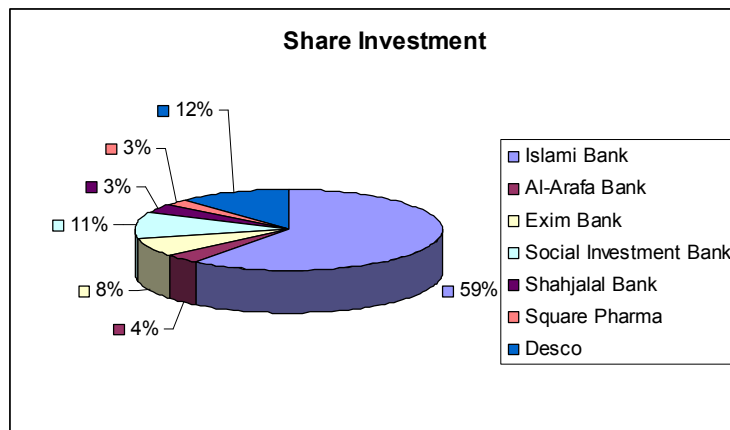


Exhibit 13: Investment Performance

Ratios	2003	2004	2005	2006
Investment Income/ Net Premium	32.82%	15.07%	14.08%	11.84%
Investment Income/ Investment asset	8.50%	8.58%	10.98%	9.45%

At the end of 2006, TIIL had investment in stock market worth BDT 15.38 million and fixed deposit of BDT 80.05 million. The latest composition of share investment of TIIL is shown in Figure 13. In stock investment portfolio major portion is invested in Islami Bank Bangladesh Ltd (IBBL) (59%) followed by DESCO (12%).

Figure 14



On the other hand, 85% of total stock investment is invested in banking sector. TIIL may consider to diversify their stock portfolio to reduce the concentration.

6.6 Liquidity

In 2006 liquid asset of TIIL was BDT 167.61 million compared to BDT 114.33 million in 2005. The growth rate was about 47%. But still liquidity ratio declined significantly in 2006 mainly due to higher growth in current liability. Current liability of TIIL was BDT 52.18 million in 2005 whereas in 2006 current liability shot up to BDT 96.79 million. The growth in current liability was almost 86%.

Exhibit 14: Liquidity Ratio

Ratio	2003	2004	2005	2006
Liquid asset / current liabilities	192.69%	191.38%	219.11%	173.17%
Current liabilities/ Total liabilities	84.31%	74.73%	67.32%	75.87%
Cash and bank balance/ Total assets	63.67%	57.45%	58.99%	49.12%

6.7 Reinsurance

SBC is the sole reinsurer for TIIL. Although as a government organization, the creditability of SBC is high, but the service is not unquestionable. In 2006 the total outstanding claim with SBC was BDT 29.54 million. Exhibit 15 shows the class wise risk retention ratios of TIIL.

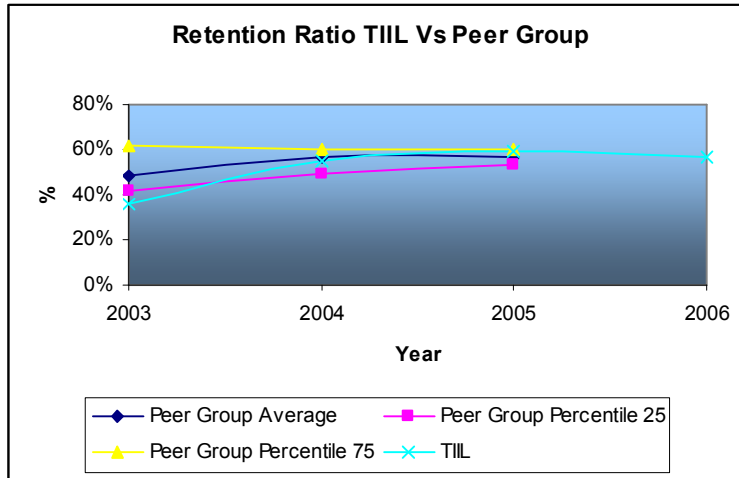
In 2006, TIIL retained highest risk for motor insurance (87%) followed by marine insurance (76%).

Exhibit 15: Risk Retention Ratio

Class of Business	2003	2004	2005	2006
Fire	31%	43%	50%	43%
Marine	54%	78%	77%	76%
Motor	59%	62%	74%	87%
Misc.	10%	28%	13%	25%
Total	36%	55%	59%	57%

Figure 14 shows the total risk retention ratio of TIIL and its Peer Group. Except in 2003 the risk retained by TIIL is almost same to its peer group average.

Figure 15



6.8 Reserve

In 2006 TIIL created a reserve for exceptional losses with BDT 7.61 million. In addition, TIIL had the reserve for unexpired risk which is known as balance of funds & accounts worth BDT 30.78 million. It is mandatory for all insurance company to maintain this reserve. For all class of business excluding marine-hull insurance, companies need to preserve 40% of net premium and for marine hull insurance this rate is 100%. TIIL has been maintaining this reserve regularly as per law.

6.9 Capital & Solvency

For general insurance company minimum capital requirement is BDT 150 million of which BDT 60 million should be subscribed by the sponsors. TIIL is yet to offer its share to the public. The equity of TIIL in 2006 stood at BDT 67.92 million.

In the absence of any standard methodology in the country to measure the solvency of general insurance companies, CRAB has followed a methodology by reviewing some other countries' existing practices.

Available solvency of TIIL had been decreased in the last four years except in 2005 while required solvency margin had a rising trend over the period. As a result solvency ratio decreased continuously. In 2006 TIIL had shortfall in solvency of BDT9.51 million and hence solvency ratio fell below 1. TIIL's solvency ratio in 2006 stood at 0.46. Details on solvency are shown in Exhibit 16.

Exhibit 16: Solvency of TIIL

BDT in million

Particulars	2003	2004	2005	2006
Adjusted Liability	47.36	66.55	77.51	130.56
Adjusted Asset	86.58	103.06	120.28	138.63
Available Solvency*	39.22	36.51	42.77	8.06
Required Solvency	6.25	9.99	13.88	17.58
Excess/Shortfall Solvency **	32.97	26.52	28.90	-9.51
Solvency Ratio***	6.28X	3.66X	3.08X	0.46X

*Available Solvency = Adjusted Asset - Adjusted Liability

**Excess/Shortfall Solvency = Available Solvency – Required Solvency

*** Solvency Ratio = Available Solvency/ Required Solvency

It is to be noted that in 2006, TIIL had unusual amount of receivable of BDT 52.77 million from SBC against the amount due to SBC of BDT 29.18 million. But the issue has been settled after the audit report period and hence has not been reflected in the balance sheet. As a result, the solvency ratio of TIIL fell below 1.